The Manitoba Milk Prices Review Commission

ANNUAL REPORT

1982-1983

ANNUAL REPORT OF THE MANITOBA MILK PRICES REVIEW COMMISSION

APRIL 1, 1982 - MARCH 31, 1983

TABLE OF CONTENTS

SECTION 1

Commission Members 4

Introduction 5

SECTION 11

Financial Statements 11

SECTION 111

Appendix A

Manitoba Regulation No. 165/82 17

MANITOBA MILK PRICES REVIEW COMMISSION
915 - 401 YORK AVENUE
WINNIPEG, MANITOBA
R3C 0P8

TELEPHONE 944 6607
AREA CODE 204

July 31, 1983

The Honourable B. Uruski
Minister of Agriculture
Legislative Building
Winnipeg, Manitoba

Sir:

Pursuant to the requirements of Section 7, subsection (1), "The Milk Prices Review Act" being Chapter 63 of Bill 86 assented to July 29, 1980, we have the honour to transmit to you the Annual Report of the Manitoba Milk Prices Review Commission for the year ended March 31, 1983.

Respectfully submitted,

The Manitoba Milk Prices Review Commission

Chairperson

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WINNIPEG, MANITOBA
R3C 0P8

TELEPHONE 944 4607
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July 31, 1983

Her Honour
The Lieutenant-Governor of the
Province of Manitoba
Winnipeg, Manitoba

Madam:

I have the honour to present herewith the Annual Report of The Manitoba Milk Prices Review Commission for the year ended March 31, 1983.

I have the honour to be, Madam,

Your honour's obedient servant,

Minister of Agriculture

MEMBERS OF THE MANITOBA MILK PRICES REVIEW COMMISSION

Mr. Jesse Vorst . . . . . Chairperson

Ms. Wendy Land . . . . . Vice-Chairperson

Mr. Rav Matheson . . . . . Member

Mr. Oli Narfason . . . . . Member

Ms. Marie-Blanche Oliviero . . . . . Member

Mr. Esau Turner . . . . . Member

Mr. Tom Yudai . . . . . Executive Secretary (Acting)

INTRODUCTION

The Milk Prices Review Act, assented to by the Legislative Assembly of Manitoba July 29, 1980, governs the work and activities of the Commission. Among the wide range of responsibilities assigned to the Commission under the legislation, some of the more important duties include: the development of a cost of production formula as the basis for fixing the price of fluid milk for producers, the monitoring of prices at all levels in the fluid milk industry and the authority to establish maximum and minimum prices charged by distributor and retailers when the Commission deems such controls necessary.

The Commission has continued the extensive discussions with officials and representatives of the Manitoba Milk Producers' Marketing Board, the Milk Processors in Manitoba and the Consumers' Association of Canada, Manitoba Branch. These discussions have permitted the Commission to increase its understanding of the fluid milk industry and to receive valuable advice and suggestions relating to the discharge of its responsibilities.

PRODUCER MATTERS

The Manitoba Milk Producers' Marketing Board's appeal of the Commission's Order No. 1/82 (Manitoba Regulation 34/82), dated January 26th, 1982, was heard by the Manitoba Natural Products Marketing Council on June 14, 1982. The Council rendered its decision in an order dated July 14, 1982. It upheld the appeal in the matter of the 30.15c per hectolitre fluid milk levy on the grounds that "(1) the levy is charged against fluid milk per se and not against any processed product thereof; (2) that the levy is not directly related to the amount of skim off from milk utilized for fluid purposes; (3) that the levy is, in effect, a direct cost of

production to producers of fluid milk; (4) that if the levy is not included in the pricing formula, producers of fluid milk would not receive the cost of production of fluid milk."

The Commission complied with the above decision, issuing Order No. 3/82 (Manitoba Regulation 165/82), dated July 28th, 1982.

The Council rejected the following items in the Board's appeal:

(a) Inclusion with the fluid price of the In-Quota Levy and M.S.Q. Levy as such would lead to the subsidizing of the disposal of surplus industrial milk by the consumers of bottle-trade milk.

(b) Increase to 20% from 10% in the sleeve (the portion of industrial milk priced at Class I level) as there appeared to be no special stimulus needed to secure an adequate, continous supply of fluid milk.

(c) Adjustment of the cost-of-production formula by 1% to compensate for the pre-trigger lag period before the 2%-trigger level is reached, as this would permanently raise the price by 1%.

(d) Adjustments in herd valuation to postpone animal depreciation to the fourth year, as such would provide double compensation to the producer who already receives annual replacement credits through the cost-of-production formula.

The Commission met several times through the year with the Board discussing such items as:

(a) validity of the 1981 cost-of-production study

(b) methods of up-dating the existing formula

(c) undertaking a new cost-of-production study

(d) indexing of assets

(e) butterf differential

(f) 1% trigger proposal

(g) 20% sleeve proposal

(h) expansion of fluid consumption

The Commission considered it inopportune to make structural changes so shortly after the implementation of the results of the 1981-study. The current producer's price was established through Order No. 3/82 (Manitoba Regulation 165/82), dated July 28,1982 (see Appendix A). Since then, input prices and interest rates have decreased significantly which if prolonged, will necessitate a decrease in the producers price according to Section 3(2) of the Act.

PROCESSOR AND RETAILER MATTERS

The year was characterized by an intensive price-war at the retail level during the summer and early fall, aided by a sizable increase in the rebates provided to the retailers by the processors. The following effects of these developments became apparent:

(a) pressure on smaller stores which cannot provide price reductions to consumers while not benefitting from processors' rebates (based on volume as on competitive strength of the retailer vs. the dairies)

(b) widening of the price gap between store prices and home delivery charges, threatening this socially

important service carried out by processing firms and independent truckers.

(c) erosion of the market position of those processors who cannot provide large discounts because of small profit margins or of insufficient ability to sustain over an extended period, operational losses through price-cutting.

While some presentations made on behalf of consumers argued that low prices benefitted the public-at-large, the long term implications of price wars at various levels deserved being studied in more detail. A tentative approach was taken in a research report commissioned by the Commission and completed in October, 1982. The Commission received many representations from the industry, suggesting or requesting the introduction of minimum wholesale prices, eliminating conspicous milk advertising and outlawing the use of milk as a loss leader.

The Commission communicated to the various participants in the processing and retailing sectors its concern with the developments. With the stabilization of retail prices in mid-fall, the need for intervention dissipated.

The continuing increase of rebates is a matter of major concern. Under present legislation, however, the Commission is unable to provide a remedy for what might well be a situation implying a long-run threat to the stability of the fluid-milk industry and the provision of a reasonably priced product to the consumer. The multi-product nature of the processing sector and the multitude of

production techniques would necessitate substantial study to establish reasonable cost-of-production minima at this level.

While the lifting of maximum-price controls in 1981 did not result in significant profit increases for the processors, there are indications that in less populated areas of the province retail prices exceed levels warranted by wholesale prices plus transportation costs. The Commission is monitoring the situation and will intervene if action is justified. The price-monitoring by the Consumers' Association of Canada was discontinued in December 1982.

INTERNAL MATTERS

The Commission meet seventeen times during the reporting year. Its composition was changed in January 1983 when the Lieutenant-Governor-in-Council appointed new members. The incoming members acknowledge the assistance of the former Chair, Dr. Clayton Gilson, during the period of transition.

The Commission's daily activities were performed by Mr. Tom Yudai, serving as Secretary-Economist on part-time loan from the Economic Analysis Branch, Manitoba Department of Agriculture, and Ms. Jessie Mamaril, Secretary-Bookkeeper. Their services are invaluable towards the successful operation of the Commission. The Commission retained Mr. Henry Monk, Q.C. as counsel and the firm of Magnus and Buffie, Chartered Accountants, as auditors for processors' returns. Internal audit are performed by the Provincial Auditors' office.

THE MANITOBA MILK PRICES REVIEW COMMISSION

Auditor's Report and Financial Statements
for the year ended March 31, 1983

PROVINCE OF MANITOBA
PROVINCIAL AUDITOR

THE MANITOBA MILK PRICES REVIEW COMMISSION

REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the financial statements, being Exhibits A and B, of The Manitoba Milk Prices Review Commission for the fiscal year ended March 31, 1983. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of The Manitoba Milk Prices Review Commission as at March 31, 1983 and the results of its operations for the year then ended in accordance with the accounting policies stated in note 2 to the financial statements applied on a basis consistent with that of the preceding year.

W. K. Ziprick, C.A.,
Provincial Auditor.

June 22, 1983,
Winnipeg, Manitoba.

Exhibit A

THE MANITOBA MILK PRICES REVIEW COMMISSION

Balance Sheet
as at March 31, 1983
(with 1982 figures for comparison)

	1983	1982
ASSETS		
Current Assets:		
Cash	$ 10,894	$ 4,443
LIABILITIES AND SURPLUS		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 2,111	$ 2,154
Surplus, Exhibit B	8,783	2,289
	$ 10,894	$ 4,443

Exhibit B

THE MANITOBA MILK PRICES REVIEW COMMISSION

Statement of Income and Expenditure and Surplus
for the year ended March 31, 1983
(with 1982 figures for comparison)

	1983	1982
Income:		
Grant from the Province of Manitoba	$ 59,268	$ 65,932
Interest income	790	-
	60,058	65,932
Expenditure:		
Annual report	$ 783	$ 515
Commission - salaries and benefits	12,610	12,054
- travel and meetings	7,388	7,106
Office and postage	1,446	1,056
Professional fees	11,234	43,379
Salaries and benefits (Note 3)	18,006	17,558
Sundry	994	2,181
Telephone	1,103	2,159
	53,564	86,008
Income (under) over expenditure	6,494	(20,076)
Surplus, beginning of the year	2,289	22,365
Surplus, end of the year, Exhibit A	$ 8,783	$ 2,289

THE MANITOBA MILK PRICES REVIEW COMMISSION

NOTES TO FINANCIAL STATEMENTS

1. **Nature of the Commission**

   The Milk Prices Review Act was enacted effective September 29, 1980. This Act established The Manitoba Milk Prices Review Commission to monitor prices of fluid milk and, if necessary, to set maximum and/or minimum prices at which fluid milk may be sold to consumers.

2. **Accounting Policies**

   The Commission uses the accrual basis of accounting.

3. **Services Provided by the Province at no Charge**

   The Province of Manitoba provides the services of an Executive Secretary, office accommodations and other miscellaneous administrative services at no charge to the Commission.

Manitoba Regulation 165/82

Being

THE MANITOBA MILK PRICES REVIEW COMMISSION ORDER NO. 3/82

Made Pursuant to The Milk Prices Review Act, Establishing a Cost of Production Formula Reflecting the Cost of Production of Milk for Use as Fluid Milk in Manitoba and Fixing Prices Determined by That Formula for the Sale of Milk by a Producer or a Producer Board for Use as Fluid Milk, and Repealing a Portion of Manitoba Regulation No. 101/78 as Amended by Manitoba Regulation Nos. 110/79 and 8/80, and Varied by Manitoba Regulation No. 202/80 and Further Amended by Manitoba Regulation Nos. 146/81, 209/81 and 72/82

(Filed July 30th, 1982)

ORDER

WHEREAS effective the 5th day of August, 1982, The Manitoba Milk Prices Review Commission (the Commission) by its Order No. 2/82, being Manitoba Regulation No. 72/82, established a cost of production formula as authorized by The Milk Prices Review Act (the Act), and pursuant to the formula and the Act established prices at which a producer or a producer board may sell milk for use as fluid milk in Manitoba;

AND WHEREAS the Commission is required by an order of the Manitoba Natural Products Marketing Council made on the 14th day of July, 1982, to amend the formula to include a fluid levy of 30.15 cents per hectolitre as a cost of production in the formula and to issue a new pricing order establishing the price at which milk for use as fluid milk in Manitoba may be sold by a producer or a producer board in Manitoba on the basis of the amended formula without regard to "area" as that word is defined in the Commission's October 1, 1981 order;

NOW THEREFORE the Commission pursuant to the Act hereby makes the following order:

1. The Commission hereby —

a) amends its Order No. 2/82 (Manitoba Regulation No. 72/82) and its formula No. 1/82, by adding to that formula following Step 6 therein the following:

"Step 7

add Fluid Milk Levy $46.02859 + $0.30 15 = $46.33009", and

b) fixes the price as determined by the amended formula at which milk may be sold by a producer or producer board for use as fluid milk as hereinafter set out.

2. The schedule set out in section 9 of Manitoba Regulation No. 101/78 as amended by Manitoba Regulation Nos. 110/79 and 8/80, and varied by Manitoba Regulation No. 202/80 and further amended by Manitoba Regulation Nos. 146/81, 209/81 and 72/82 is hereby repealed and the following substituted therefor:

SCHEDULE

Price for 1 hectolitre of milk testing 3.6 kilograms butterfat f.o.b. distributors plant	**$46.33009**

3. This order shall come into force on the 1st day of August, 1982, or on the day on which it is filed with the Registrar of Regulations, whichever is the later.

IN WITNESS WHEREOF the Manitoba Milk Prices Review Commission has hereunto affixed its seal duly attested by the hands of its proper officers in that behalf this 28th day of July, A.D. 1982, at the City of Winnipeg, in Manitoba.

THE MANITOBA MILK PRICES REVIEW COMMISSION

per "John R. Nixon"
John Nixon, Vice-Chairman

per "Gordon H. MacKenzie"
Gordon H. MacKenzie,
Acting Secretary

(SEAL)

This is Exhibit "A" to the Certificate of John Nixon, dated the 28th day of July, 1982.

"John R. Nixon"
Vice-Chairman, The Manitoba Milk Prices Review Commission

(SEAL)